



# AUSTRALIAN PORK LIMITED

Submission to the Australia-United Kingdom Free  
Trade Agreement

August 2020



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# 1. Australian Pork Limited

Australian Pork Limited (APL) is the national representative body for Australian pork producers. APL is a producer-owned not-for-profit company combining marketing, export development, research and innovation, and policy development to assist in securing a profitable and sustainable future for the Australian pork industry.

## 2. The Australian Pork Industry

As the most consumed meat globally and the second most consumed meat in Australia, pork is an important part of our diets. Australia's domestic sow herd numbers around 270,000, housed across about 4,260 registered sites nationwide. In a typical year, the pork industry, including pig production, primary and secondary processing, and wholesale, contributes about \$5 billion in gross domestic product to the Australian economy and supports around 36,000 jobs nationally. The majority of the industry is based in regional Australia with the largest volumes of production coming from Queensland, Victoria, and South Australia, respectively.

In 2019, the industry produced around 400,000 tonnes of pork and of this, about nine percent was exported, with a total value of about \$131 million. Major overseas markets for Australian pork include Singapore, New Zealand, Papua New Guinea, the Philippines, and Hong Kong.

While Australian pork exports are relatively small, the domestic market is heavily exposed to imported product, with some estimates putting the level of imports at 50% of local consumption overall. Because of Australia's biosecurity laws restricting the importation and sale of fresh pork from overseas, all fresh pork consumed in Australia must be domestically-sourced. However, the ham and bacon categories are dominated by foreign products. Many Australian consumers struggle to find domestically-grown bacon in their local supermarkets.

The pork industry is connected to global markets by imports and exports, but also via flows of investment and people. APL takes a keen interest in trade policy and free trade agreement (FTA) negotiations. We welcome the opportunity to comment on the proposed Australia-United Kingdom (UK) FTA.

**To summarise APL's position:**

**The Australia-UK FTA does not provide obvious market access opportunities for Australian pork. However, industry sees the potential for mutually-beneficial outcomes in the areas of animal welfare, investment, and movement of natural persons. At the same time, industry has some concerns over geographical indications (GIs) and UK levels of domestic support for agriculture.**

### 3. Overview of Australia-UK trade in pork and pork products

The trade relationship between Australia and the UK in pork and pork products is modest. Australia does not export to the UK, due to a lack of access protocols. Import volumes are small, limited by Australia's biosecurity rules, the UK's lack of price competitiveness on global commodity pork markets, and its export focus on the EU and mainland China.

The UK pig production industry is roughly twice as big as Australia's, with comparable costs of production. Like Australia, the UK is a net importer of pork overall, but its superior export performance keeps farmgate prices in check, delivering a sustainable industry. Export performance can be measured by overseas sales as a percentage of total production. In 2018, Australia exported roughly 11 percent of production by volume, compared to the UK's 28 percent. The UK's export success has been supported by advantageous market access arrangements, including free access into the massive EU bloc, and into mainland China. These two markets, which Australian exporters cannot access, are top consumers of pork globally on both a total volume and per capita basis.

In 2019, Australia imported 268 tonnes of uncooked pig meat worth approximately \$1.5 million from the UK. Uncooked pigmeat entering Australia must be cooked at specified temperatures for specified times in quarantine before being made available for sale because of Australia's biosecurity requirements.

The UK, like all countries, is permitted to export retorted (e.g. canned) pig meat products to Australia, as these are deemed to have been sufficiently processed and cooked as to eliminate any disease incursion risks. The UK participates in sophisticated global supply chains for the production and sale of these types of products. A typical example of a retorted pork product imported from the UK and for sale in Australia is shown below:



The branding and design are Chinese (Cofco), while the product itself was manufactured in the Netherlands from EU-sourced pork, then packed in the UK, and finally exported for sale in Australia.

APL acknowledges that the government will not negotiate biosecurity and any trade agreement between Australia and the UK would not expand access to other categories of pig meat (e.g. smoked ham and bacon). Similarly, industry is not requesting the negotiation of market access protocols to facilitate the export of Australian pork as part of the FTA. Nor are we prioritising reductions in UK pork tariffs.

Australia maintains a modest 5% *ad valorem* MFN tariff on some preserved ham products, such as the example product given above, but allows free access on all other pork lines. Industry views the remaining 5% tariff as a partial, but insufficient, offset for the generous government support received in many pork-exporting countries, including the UK. London's farm support programs are discussed further below.

While the Australian Government has unilaterally all but surrendered our pork tariff, the UK wisely announced in May 2020 its intention to maintain robust MFN pork tariffs after leaving the EU customs bloc. These duties range from GBP 39 per 100 kilograms up to as much as GBP 131 per 100 kilograms on almost every imaginable pork product. While we do not request Australia's negotiators pursue the dismantling of these barriers as a priority, were the UK to ask for elimination of Australia's remaining tariffs, then the resulting tariff-free access must be reciprocated.

**Recommendation 1: Australian negotiators must prioritise the retention of the remaining 5% MFN tariffs on processed pork products (HS1601, HS1602) to help offset UK's subsidy programs. Failing this, negotiators must secure reciprocal elimination across all UK pork tariff lines.**

The existing pork trade between Australian and the UK is small, however, there are areas within the proposed FTA that would provide mutually-beneficial outcomes in relation to animal welfare standards, investment, and the movement of natural persons.

## 4. Animal Welfare

Modern free trade agreements cover an expanding range of topics that have close relationships with trade, including the labour and environmental standards to which commodities or manufactures have been produced. Reference to these issues in Australia's so-called '21<sup>st</sup> century' trade agreements helps raise or maintain international standards and protect Australian businesses and workers from unfair competition.

In recent years, animal welfare considerations have been rightly added to this agenda. APL acknowledges the close relationship between improvements in animal welfare standards and the international trade settings required to support them.

The Australian community expects its food to be ethically-produced. Our world-leading animal welfare standards have been constructed with this in mind. However, a country's trade policy settings can influence animal welfare outcomes, not only in that particular country, but around the world. The

interaction can be summarised generally in this way: a relaxed trade policy incentivises relaxed animal welfare standards.

Currently, imports from low-welfare suppliers compete unfairly in the Australian pork market. This is because Australian producers are required by law and by voluntary industry codes to meet the cost of superior animal welfare outcomes. Low-welfare foreign suppliers are not required to meet these same standards, conferring to them a corresponding price advantage over local producers.

This fact creates market distortions that negatively affect industry's objective to raise animal welfare outcomes. The uneven competition puts commercial pressure on Australian producers to reduce expenditure and investment on welfare (to lower their overall cost of production) and undermines industry support for high animal welfare standards.

For this reason, it is important to maintain trade arrangements that work to support, not undermine, local standards of production, the expectations of the community, and Australia's sovereign laws.

Of course, the UK is not a low-welfare producer of pork. It maintains some of the world's best animal welfare standards and was the first jurisdiction globally to legislate a ban on use of gestation crates in pig production. However, as it leaves the EU customs zone, the UK is under immense pressure to relax importation standards and allow for the entry of low-welfare imports that would undermine local production laws and hurt local farmers. The intense debate around chlorine-washed chicken in the context of the UK-USA free trade agreement is a good illustration.

The EU, like the UK, recognises the link between animal welfare and trade. It provides a good example of progressive trade policy that takes animal welfare considerations into account. Brussels regulates animal welfare at the border with all trading partners (e.g. the European Cattle Accreditation Scheme) and has established mechanisms to deal with the animal welfare-trade nexus in many of its FTAs.

For instance, The Canada-EU Trade Agreement (CETA) references animal welfare: Chapter 21 (Regulatory Cooperation), Article 4(s) of the CETA commits the parties to "*exchanging information, expertise and experience in the field of animal welfare in order to promote collaboration on animal welfare between the Parties.*" This is not a strong measure. It is non-binding and overall, could not be expected to impede trade in food and fibres between the two economies. Still, the symbolism is important. As is the establishment of a framework to jointly progress animal welfare outcomes with reference to trade issues.

Australia and the UK are broadly like-minded on animal welfare, both can claim to maintain relatively high standards. The FTA is an opportunity to better entrench animal welfare as a consideration in trade relations, without imposing enforceable disciplines on industry in either market, as per the CETA example. Suggested provisions could include setting up an animal welfare consultative committee under the FTA; committing to information exchanges, workshops, and global outreach; and pledging each jurisdiction to adhere to and enforce their own respective domestic animal welfare rules.

**Recommendation 2: As a progressive, 21<sup>st</sup> century trade agreement, the Australia-UK FTA should include reference to animal welfare, acknowledge the strong link between welfare standards and trade, and incorporate non-binding mechanisms to encourage information sharing and consultation on animal welfare between the parties.**

This would send a strong message to the world that animal welfare standards need to be considered as part of comprehensive and progressive approach to trade. It is also a fairly low-hanging, win-win outcome for Australia and the UK, as both parties are high-welfare jurisdictions with an interest in improving global standards.

## 5. Investment

Outcomes on investment facilitation would be another win-win for both parties to the FTA. There is a clear historical link between the growth of the Australian economy and foreign investment – particularly British investment. A significant proportion of development and improvement within Australian agribusinesses and agricultural infrastructure has been a result of foreign investment. The pork industry in Australia has benefitted greatly from foreign investment in pig farming and processing capacity. Foreign investment in Australian pork production improves and increases industry productivity, improving the infrastructure of the Australian agriculture sector as a whole.

One of the two largest integrated pig production and processing operations, Rivalea, is a wholly-owned subsidiary of Singapore-based QAF. The other was financed and developed by Japanese capital in the early 2000s but is now in Australian hands. A third major abattoir is owned by Brazil-based JBS, and another major smallgoods manufacturer, Don KRC, is owned by UK-based food company, George Weston Foods (GWF).

GWF invests in Australian piggeries and uses the pig meat they produce domestically in their Don smallgoods products. These are sold both locally and overseas.

**Recommendation 3: The FTA should include measures to simplify, facilitate, and encourage UK investment into Australian agriculture. In particular, we recommend the Australian Government lift the Foreign Investment Review Board (FIRB) monetary screening threshold for UK investments in Australian agribusiness and agricultural land to A\$1,192 million, in line with treatment offered to Chile, New Zealand, and USA.**

## 6. Movement of Natural Persons

The modern Australian pork industry is a technical, specialised and dynamic industry which relies on a highly skilled workforce. We require a workforce to manage nutritionally balanced feed operations, monitor growth, administer artificial inseminations, and understanding animal health and behaviour, amongst other specialised tasks.

Unfortunately, skilled workers are extremely difficult or impossible to source locally. In the most recent annual industry survey conducted by APL, it was found that almost a third of pig producing organisations reported to be understaffed.

Skilled migration has been a long standing and indispensable part of the agricultural industry's response to the challenge of varying labour availability and skills shortages in the domestic labour market. Many skilled migrants who come to Australia to work in the agricultural industries possess the necessary skills and qualification through their experiences working with pigs in their home countries. Often

times, the skills and knowledge of the skilled migrants, who come to Australia to work in the Australian pig industry, are transferred to the local workforce, creating a dynamic whereby Australia's domestic agricultural workforce is continuously improved through the movement of skilled migrants from overseas.

Increased UK investment in Australian agriculture is supported and complemented by greater access to temporary work visas for UK nationals. The investment and movement of natural persons provisions in the FTA should be mutually reinforcing.

**Recommendation 4: To help address critical shortages of skilled agricultural workers in Australia, the FTA should include improved access to temporary skilled working visas for UK nationals seeking employment in the Australian pork production or broader agricultural sector.**

## 7. Domestic Support

The Australian pork industry has concerns about the UK's proposed levels of domestic support for agriculture. The post-EU expenditure framework, as it stands, will provide an unfair advantage to UK farmers over their Australian counterparts.

Before leaving the European Union (EU), the UK agricultural industry was subsidised under the Common Agricultural Policy (CAP). The CAP, one of history's most egregious examples of agricultural market distortion, consumed 80% of the EU budget during the 1990's. It represents approximately 40% of EU public spending today (€ 59 bn).

Since leaving the EU, British agriculture no longer receives CAP subsidies. As an interim, the Direct Payments to Farmers Bill was introduced in the UK in January 2020, guaranteeing agriculture subsidies would be paid to UK farmers in 2020 at the same levels as they were under the CAP. After 2020, the Agriculture Bill will provide a new system of agricultural subsidies. The UK has announced that to ease the transition to the new system, direct payments to farmers will be phased out over 7 years starting in 2021. This is a lengthy transition timeline and enables the UK to continue to maintain the direct payments to farmers scheme as it did under the CAP.

The new Agriculture Bill proposes agricultural spending of approximately £3 billion (approximately A\$5.4 billion) per year with a focus on 'public money for public goods.' Public goods are said to include enhancing air and water quality, tackling climate change, improving animal welfare and wildlife, and improving public access to the countryside. The UK Department for Environment, Food & Rural Affairs (DEFRA) anticipates tailoring payment schemes for different regions and plans to use auctions, in which farmers will bid for government contracts for environmental services. These subsidies create a lower cost of production and allow the recipients to export their products at unnaturally competitive prices.

In stark contrast, Australian farmers are some of the least subsidised in the world, second only to New Zealand in terms of the income received from government. Agricultural assistance in Australia is provided by exception (for example in times of drought and flood), rather than as a matter of course.



While UK farmers will receive A\$5.4 billion in new subsidies, as noted above, Australian primary production received only A\$1.7 billion in 2018-19, according to the Productivity Commission's Trade and Assistance Review 2018-19.

Over the past 50 years, economic assistance for the Australian agriculture industries has been on a steady downward trend. Because of this, Australian farmers do not expect to receive a regular handout, as many of their overseas counterparts do. Government largesse provides UK farmers with an untoward advantage that must be taken into account when negotiating a fair market access package.

**Recommendation 5: Australian negotiators must bear in mind the UK's high rate of government support for farmers relative to our own in seeking a fair market access outcome for Australian agriculture.**

## 8. Geographical Indications

The potential inclusion of a list of 'Geographical Indications' (GIs) in the Australia-UK FTA is another area of concern to the Australian pork industry. GIs are a tool of protectionism that are utilised to reduce competition and limit innovation. GIs have no place in FTAs. APL's membership is comprised of primary producers and, as such, does not include a large number of processed food manufacturers of the sort that would be directly affected by GI measures, with some important exceptions. However, APL maintains supportive relationships with our supply chain partners in the smallgoods manufacturing industry and has consulted with these when considering our position on GIs in the UK and EU FTAs.

Widespread adoption of foreign GIs will hurt Australian farmers and smallgoods manufacturers and cause confusion amongst Australian consumers. Australia already has in place robust systems of intellectual property regulation that sufficiently protect the rights of the owners of products and brands. If GIs must be included in an FTA with the UK, the government should take all steps necessary to ensure that the list is kept short, with tightly-defined terms.

**Recommendation 6: Negotiators should resist the inclusion of GIs in the Australia-UK FTA. Failing this, any GI list must be as short as possible with terms limited to 'compound' or 'multi-component' terms (i.e. comprising more than one word, one of which is a geographical location or descriptor, where the other may be a generic term), with protection applying only to the full multi-component term.**

## 9. Conclusion

APL appreciates the opportunity to engage with the Department of Foreign Affairs and Trade on Australia's trade policy and negotiation priorities. We support the negotiation of a balanced, high quality FTA with the UK that benefits Australian farmers. We see particular value to the pork industry in securing ambitious outcomes for animal welfare, investment, and movement of natural persons. However, APL has concerns about the UK's levels of government support for farmers and the inclusion of GIs under the FTA.

## 9.1 APL's Recommendations in Summary

**Recommendation 1:** Australian negotiators must prioritise retention of the remaining 5% MFN tariffs on processed pork products (HS1601, HS1602) to help offset UK's subsidy programs (see also recommendation 5). Failing this, negotiators must secure reciprocal elimination across all UK pork tariff lines.

**Recommendation 2:** As a progressive, 21<sup>st</sup> century trade agreement, the Australia-UK FTA should include reference to animal welfare, acknowledge the strong link between welfare standards and trade, and incorporate non-binding mechanisms to encourage information sharing and consultation on animal welfare between the parties.

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